

RESERVE POLICY

Adopted Date: 12/10/2020
Revised Date: N/A

PURPOSE

The purpose of this fiscal accountability rule is to document the City and County of Denver's reserve policies to ensure the city's financial sustainability.

This fiscal accountability rule shall be read in conjunction with, and users shall comply with, all applicable provisions of the following Denver Revised Municipal Codes, TABOR Amendment, and all Fiscal Accountability Rules, to ensure compliance and understanding:

- [Denver Revised Municipal Code, Charter, Section § 7.1.4](#)
- [Denver Revised Municipal Code – Chapter 20, Article II, Section 22-22](#)
- [TABOR Amendment](#)

DEFINITIONS

Balanced Budget – A budget in which appropriated expenditures do not exceed estimated opening balances and projected revenues.

Contingency Reserve – An appropriated reserve, included in the annual appropriation ordinance, equal to no less than two percent of General Fund operating expenses (per the City Charter). The Contingency Reserve is intended for the payment of unforeseen expenses that are not otherwise appropriated in the annual appropriation ordinance.

Unassigned Fund Balance – Unappropriated funds in the General Fund. The city's target is to maintain unassigned fund balance (fund balance) at 15 percent of operating expenditures. It should not go below 10 percent of operating expenditures, except in response to a severe economic or other crisis.

TABOR Reserve – A State-mandated emergency reserve equal to three percent of all covered funds. This requirement may be met through a combination of cash reserves and real estate assets in Special Revenue Funds. The funds can only be used for extreme disasters; they cannot be used for economic conditions, revenue shortfalls, or salary and benefit increases. Any use of the TABOR reserve must be replaced within one year.

RULES

The City Charter states the Mayor shall not propose a budget in which expenditures are in excess of estimated opening balances and anticipated revenue. The city's objective is to achieve structural balance between operating revenues and expenditures; however, both can fluctuate without advance notice. Therefore, it is financially prudent to have reserve funds and a policy for their use.

- 1.** The city's proposed budget shall contain a contingency reserve for the General Fund equal to no less than two percent of total estimated expenditures, per the City Charter. At year-end, any unspent contingency reserve rolls into the unassigned fund balance for the following budget planning year.
 - A.** Criteria for spending contingency reserve to increase operating budgets are:
 - a.** An unexpected event such as a natural disaster or an accident.
 - b.** Large unappropriated retirement payouts or unrealized vacancy savings.
 - c.** A change in work program initiated or approved by the Mayor's Office.
 - d.** Prior year budget for a specific item that lapsed before the purchase.
 - e.** A technical correction of the original budget.
 - f.** A change in legislation creating an unfunded mandate.
 - g.** Planned one-time expenditures advancing a programmatic or financial outcome.
 - B.** The contingency reserve shall be the first reserve used for any revenue shortfall or unanticipated expenditures.
 - C.** Any rescission from the contingency reserve to re-appropriate budget must be approved by City Council ordinance.
- 2.** The city has a target of maintaining a 15 percent of expenditures undesignated fund balance reserve, due to the volatility of sales tax revenue and TABOR restrictions. The fund balance reserve should not go below 10 percent of expenditures, except in response to a severe economic or other crisis.
 - A.** Fund balance reserves above 15 percent can be used for one-time or capital expenditures and debt reduction.
 - a.** Reserves in this sub-category are flexible and available for use.
 - b.** These reserves provide an opportunity for strategic investment and problem solving.
 - c.** Typically, this amount is not reconciled until the financial year-end close and post audit. Any available balance is addressed as part of the budget planning for the next available year.

- B.** Fund balance reserves above 10 percent and below 15 percent can be used for one-time expenditures to stabilize the city during normal economic cycles when anticipated revenue growth is below the historical average.
 - a.** Reserves should only be used to provide a short-term solution to maintaining services until projected revenue growth or necessary expenditure reductions are achieved to balance the budget. It is critical to identify and address the issues causing the budget imbalance.
 - b.** The city must evaluate the length and severity of economic conditions and their impact on future revenue projections to determine the extent of expenditure reductions or revenue increases required to achieve structural balance.
 - c.** The city should first seek to offset revenue declines with expenditure reductions. Reserves should only be used when further reductions in expenditures would affect essential city services. As a minimum standard, any use of fund balance should be matched by equal or greater expense reductions in times of economic downturn.
 - d.** Fund balance reserves may only be selectively used to offset further service cuts when beginning an economic recovery and projected revenues are not yet growing at the historical average and if there is a replenishment plan.
 - e.** Reserves in this sub-category are not flexible and should only be used to offset revenue shortfalls or extraordinary expenditure demands.
 - C.** Use of fund balance reserves below 10 percent is restricted to responding to a severe economic or other crisis. This category is only used in the most unusual or unexpected situation.
 - D.** Any use of fund balance reserves below the 15 percent target should be accompanied by a replenishment plan. This is particularly critical when reserves are below 10 percent. No growth in discretionary expenditures should be allowed until the General Fund reserve is restored to 10 percent.
- 3.** The TABOR Amendment to the State Constitution requires the city to establish a TABOR emergency reserve fund of three percent of all covered funds.
- A.** The funds cannot be used for economic conditions, revenue shortfalls, or salary and benefit increases.
 - B.** Any use of the TABOR reserve must be replaced within one year.
 - C.** Use of the TABOR reserve is limited to extreme disasters, because of the constitutional restrictions and the requirement to repay this reserve by the end of the next fiscal year.
 - D.** This requirement may be met through a combination of cash reserves and real estate assets in Special Revenue Funds.

AUTHORITY AND ACCOUNTABILITY

The **Controller's Office** and the **Budget and Management Office** is responsible for this fiscal accountability rule and any procedures, guides, job aids, forms, and one-page summaries associated with this rule.

Unless otherwise specified at the beginning of the document, printed copies are UNCONTROLLED.
Always refer to the online Fiscal Accountability Rules on City and County of Denver website prior to use to ensure you are using the most current copy.